

RatingsDirect®

Summary:

Los Angeles County, California; Note

Primary Credit Analyst:

Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@spglobal.com

Secondary Contact:

Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@spglobal.com

Table Of Contents

Rationale

Summary:

Los Angeles County, California; Note

Credit Profile

US\$700.0 mil 2018-19 TRANs due 06/28/2019

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to each of Los Angeles County, Calif.'s 2018-2019 \$700 million tax revenue anticipation notes (TRANs).

The rating reflects what we view as the county's:

- Very diverse economy and good long-term creditworthiness;
- Strong coverage at maturity, and access to very strong alternative liquidity; and
- History of conservative cash flow projections that exceed projections.

According to the resolution and financing certificate, on and after the set-aside dates, the county auditor-controller will deposit into the TRANs repayment fund unrestricted taxes, income, revenue, cash receipts, and other moneys of the county attributable to fiscal 2018-2019, and lawfully available for payment. The repayment fund will be held by the county auditor-controller, and is invested in the county treasury pool.

The 2018-2019 TRANs are secured by all legally available revenue of the county attributable to fiscal 2019. The series mature June 28, 2019.

Coverage for the fiscal 2018-2019 TRANs at maturity is anticipated to be a strong 1.92x with assumed estimated interest costs. The county's cash flows indicate payments set aside in December, January, and April. Set-aside coverage is good, above 1.99x for all periods. The county benefits from alternative cash sources ranging from property tax and other trust funds to liquidity available from the hospital group funds. These sources bring coverage at maturity to 3.86x, according to our calculation. County officials report transfers of these funds do not require board action.

Los Angeles County's cash flow assumes 6.0% growth in secured property tax revenue in fiscal 2018-2019, which is consistent with the assessor's estimates. The county assumes 0.9% growth in sales tax receipts. The county has conservatively estimated that cash flows will decrease in fiscal 2019, primarily due to a projected delay in repayment of loans from the hospital. Management reports this is primarily due to costs associated with the new programs, which may take additional time to recoup. For expenditures, salary and postemployment benefit contribution increases are included in the cash flow estimates. Overall, cash flows indicate disbursements in excess of revenues for fiscal 2019; however, the general fund has historically maintained strong budgetary flexibility. Although we believe the individual revenue and expenditure line-item results may fluctuate somewhat, historically, overall cash flow assumptions have

had positive variations, resulting in stronger-than-projected coverage.

For the previous year, the fiscal 2018 TRANs coverage at maturity, based on the projected June 2018 cash balance, is expected to be 3.11x. This is higher than the original 1.78x cash coverage projected at the time of issuance, partially due to 2017 projections, which showed a lower fund balance. Additionally, property tax revenue receipts exceeded projections, among other things. On the expenditure side, the hospital loan balance increased by \$17 million but remains well below historical norms. Overall, the county's projected year-end cash balance is expected to be over \$1.2 billion higher than original 2018 projections.

We understand the county intends to invest TRAN proceeds and repayment amounts in its investment pool. As of March 2018, the pool is highly liquid, with an average weighted maturity of 564 days, and about 37.9% of the pool's investments mature within 60 days.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.